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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the matter of )  
 )  
Review of the Pioneer's Preference Rules ) ET Docket no. 93-266

**Reply Comments of Accel Partners**

Accel Partners is a private venture capital firm with over \$350 million under management, focusing on investments in the telecommunications and software industries. As the attached "tombstone" indicates, we are one of the leading investors in young telecommunications companies, including a number of wireless communications entrepreneurs.

Although we have no affiliation with any Pioneer's Preference recipient, we have been tracking the FCC's process in Personal Communications Services (PCS), along with the evolving policy in Pioneer's Preference, for the last several years. Our early discussions with entrepreneurs seeking a Pioneer's Preference in PCS reflected both uncertainty over the standards for receiving the Preference, as well as naivete on the part of entrepreneurs. Many felt that large numbers of Preferences would be awarded. We declined to invest in four PCS "experimental license" holders in part because of the uncertainty over the Preference rules; our due diligence indicating only a few Preferences would be granted; and most importantly, the high degree of uncertainty over the timing and nature of the FCC's PCS rulings.

When PCS Preferences were (tentatively) granted, the FCC appropriately set the bar high, and chose a select few firms that made significant contributions to the evolution of PCS services in the U.S. That decision was in line with our own expectations: that only the most innovative firms contributing new architectures, significant technological advances, or major new services would be rewarded with the Pioneer's Preference.

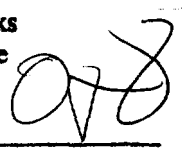
While the early impact of the policy and awards has been positive, our view is that the full impact of a well thought out and executed Pioneer's Preference policy will not be felt for some time. Not until early Pioneers have proceeded through the cycle of reaping their rewards will the entrepreneurial community fully appreciate the benefits of innovation in the licensed wireless domain. Most of the focus of wireless innovation among venture capital backed entrepreneurs has been in the area of new unlicensed products (such as wireless LANs) and existing licensed services (such as cellular, SMR and paging).

While these innovations are important and financially rewarding, they do not achieve one of the original goals of the Pioneer's Preference: stimulating new, innovative wireless services enabled by new technologies and new architectures. Investing in new services, or technologies that enable new services, is higher risk because of regulatory uncertainty.

**Regulatory Uncertainty**

As investors in early stage companies, we are comfortable with "high risk" projects, when those risks are manageable. By backing good people, partnering our companies with large corporations, and facilitating subsequent capital infusions, we help the companies in which we invest overcome the risks inherent in any start-up. But an uncertain regulatory environment is one of the classic unmanageable risks which discourages early stage investments.

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**The current action contemplated by the FCC - eliminating the Pioneer's Preference - would change the rules in the middle of the process and create exactly the kind of uncertainty which constitutes an unacceptable risk for early stage investors. If the FCC is susceptible to persuasion by large wireless carriers on this issue, what does that mean for the frequencies targeted to small, minority- and women-owned businesses? Indeed, what does it mean to the auction rules as a whole?**

#### **PCS Uncertainty**

**In our discussions with other venture capital firms interested in investing in PCS service providers, we hear echoes of our own uncertainty. With the fluidity of auction rules and technical standards, piled on top of the need to spend equity dollars on securing the license, moving existing microwave holders, building the network, and marketing the service in the face of tough competition, PCS represents a large degree of financial and operational risk. The entrepreneurs who will succeed in such an environment may not be those who sought to develop innovative approaches to PCS. Technical innovation is not only irrelevant to the capital markets considering PCS auction bidding, it may be a negative at this point. Layering technical risks on top of the other uncertainties may not make sense with PCS as currently structured. Thus, it is not surprising that the established European GSM standard is finding adherents among potential U.S. PCS licensees.**

**By adopting auctions, the FCC has not eliminated the uncertainty that services innovators face with regard to securing a license once their ideas have proven their merit. The Commission has merely substituted multi-dimensional complexity, which is only marginally more manageable for small companies than the chances of the lottery. PCS auctions, or more generally, complex auctions for new wireless services, create an environment that rewards companies with the best lawyers and the deepest pockets, rather than companies with the best ideas and the best technologies.**

#### **Conclusion**

**There's a well known saying in the venture capital industry, that "pioneers are the ones with arrows in their backs." If the FCC chooses to abandon its earlier decisions on Pioneer's Preference, or to diminish or charge for the awards, it will be delivering proverbial arrows into three companies that, in their separate ways, met a high standard of innovation. It will discourage future entrepreneurs contemplating innovative wireless services, and most certainly discourage their potential investors. And it will end an important policy of encouraging innovation - awarding licenses rather than slinging arrows - which was, and still is, a good idea.**

# Building leaders in telecommunications...

## Advanced Computer Communications

Multi-protocol Routers  
\$10 Million Later stage Financing

February 1992

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## Agile Networks

ATM Backbone LANS  
\$4.9 Million Start-up Financing

November 1992

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## Alantec

Workgroup Hub-Routers  
\$4.5 Million Follow-on Financing

January 1992

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## BroadBand Technologies

Fiber to the Home  
\$4.5 Million Start-up Financing

December 1988

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## Centrum Communications

Multiprotocol Remote Access Servers  
\$6.5 Million Start-up Financing

October 1993

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## Clear Communications

T-1 Network Management  
\$2.5 Million Start-up Financing

March 1988

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## Farallon

Network Connectivity for  
Macintosh and PC Workgroups  
\$18.2 Million Expansion Financing

March 1992

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## LANSpeed

Cell Switched Token Ring Hubs  
\$4.8 Million Start-up Financing

September 1993

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## MAXM

Automated Operation of  
Networks and Mainframes  
\$2 Million Start-up Financing

June 1987

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## Netlink

SNA Internetworking  
\$3 Million Start-up Financing

June 1984

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## Netwise

Client/Server Middleware for  
Legacy Systems  
\$3.3 Million First Round Financing

March 1989

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## Network Equipment Technologies

T-1 Private Networks  
\$7.5 Million Second Round Financing

July 1984

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## Optilink/DSC

Fiber Optic Digital Loop Carrier Systems  
\$4.8 Million Start-up Financing

March 1987

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## PageMart

Personal Communications Services  
\$2.5 Million Start-up Financing

June 1989

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## PictureTel

Full Motion Videoconferencing  
\$9.5 Million Turnaround Financing

July 1988

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## Polycom

Advanced Teleconferencing Equipment  
\$3.8 Million Start-up Financing

July 1991

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## Racotek

Mobile Data Systems Integration  
\$1.2 Million Start-up Financing

April 1989

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## Remedy

Distributed Network Management Software  
\$2.5 Million Start-up Financing

January 1991

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## Starlight Networks

Digital Video Networks  
\$2.25 Million Start-up Financing

June 1991

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## Synernetics

Switched Ethernet Hubs  
\$6.2 Million Start-up Financing

June 1989

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## Teles Communications

Enterprise Video Networking  
\$3.5 Million Start-up Financing

June 1987

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## Teloquent

Software for Managing Public Networking  
\$4.5 Million Start-up Financing

November 1989

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## Traveling Software

Mobile Communications Applications  
\$1.3 Million Secondary Stock Purchase

December 1991

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## UUNET

Internet Services  
\$1.7 Million Early Stage Financing

October 1983

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## TSB International

Multivendor PBX Network Management  
\$1.1 Million Expansion Financing

May 1985

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## Vitalink Communications

LAN Bridges and Routers  
\$5.5 Million Turnaround Financing

August 1986

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## Vivo

Desktop Video Communications  
\$3.5 Million Start-up Financing

May 1993

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## WINDATA

Wireless Local Networks  
\$3.7 Million Start-up Financing

December 1990

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